

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature	Printed Name		License Number	

HOWELL AREA
FIRE AUTHORITY

REPORT ON AUDIT OF
FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

HOWELL AREA FIRE AUTHORITY

AUTHORITY BOARD MEMBERS

William Bamber - Chairperson
Michael Coddington - Vice Chairperson
Mark Fosdick - Secretary
Gary McCririe - Treasurer
Robert Hanvey - Trustee
Paul Rogers - Trustee

OTHER AUTHORITY BOARD MEMBERS (non-voting)

Barbara Souchick - Assistant Secretary/Assistant Treasurer

ATTORNEY

Gentry Law Offices, P.C.

AUDITORS

Pfeffer, Hanniford & Palka
Certified Public Accountants

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PFEFFER ■ HANNIFORD ■ PALKA
Certified Public Accountants

John M. Pfeffer, C.P.A.
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September 26, 2006

Board of Trustees
Howell Area Fire Authority
1211 W. Grand River
Howell, Michigan 48843

INDEPENDENT AUDITORS' REPORT

Honorable Board of Trustees:

We have audited the accompanying financial statements including the discretely presented component unit of the Howell Area Fire Authority as of and for the year ended June 30, 2006. These financial statements are the responsibility of the Authority Board. Our responsibility is to express an opinion on these financial statements based on the audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the government activities including the discretely presented component unit of the Howell Area Fire Authority, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year end in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and other Required Supplementary Information on pages 6 - 9 and pages 29 and 30 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Howell Area Fire Authority's basic financial statements. The supplementary information presented for purposes of additional analysis are not a required part of the basic financial statements. The supplementary information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we express no opinion on them.

Pfeffer, Hanniford & Palka, P.C.

PFEFFER, HANNIFORD & PALKA
Certified Public Accountants

MANAGEMENT
DISCUSSION
AND
ANALYSIS

Management Discussion and Analysis June 30, 2006

Within this section of the Howell Area Fire Authority's annual financial report, the Authority's management is providing a narrative discussion and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2006. This narrative discusses and analyzes the activity within the context of the accompanying financial statements and disclosures following this section. The discussion focuses on the Authority's primary government and, unless otherwise noted, component units reported separately from the primary government are not included.

Overview of the Financial Statements

Management's Discussion and Analysis introduces the Authority's basic financial statements. The basic financial statements include government-wide financial statements, fund financial statements, and notes to the financial statements. The Authority also includes in this report additional information to supplement the basic financial statements.

Government-Wide Financial Statements

The Authority's annual reports include two government-wide financial statements. These statements provide both long-term and short-term information about the Authority's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The first of these government-wide statements is the Statement of Net Assets. This is the Authority-wide statement of position presenting information that includes all the Authority's assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority as a whole is improving or deteriorating. Evaluation of the overall health of the Authority may extend to various non-financial factors as well.

The second government-wide statement is the Statement of Activities which reports how the Authority's net assets changed during the current fiscal year. The design of this statement is to show the financial reliance of the Authority's distinct activities or functions on the revenues generated by the Authority.

Both government-wide financial statements distinguish governmental activities of the Authority that are intended to recover all or a significant portion of their costs through user fees and charges or by taxes collected. The Authority's financial reporting includes all the funds of the Authority and, additionally, organizations for which the Authority is accountable.

Fund Financial Statements

A fund is an accountable unit used to maintain control over resources segregated for specific activities or objectives. The Authority uses funds to ensure and demonstrate compliance with finance-related laws and regulations.

The Authority has one kind of fund, governmental fund. *Governmental funds* are reported in the financial statements and encompass essentially the same functions as governmental activities in the government-wide financial statements except with a different focus on the financial activity. These statements report short-term fiscal accountability focusing on the use of spendable resources and balances of these resources available at the end of the year. They are useful in evaluating annual financing requirements of governmental programs and the commitment of spendable resources for the near-term. Since the focus of the government-wide financial statements includes a long-term view, a reconciliation of these fund balances has been completed to detail it's relation to net assets.

Notes to the financial statements

The accompanying notes to the financial statements provide information essential to a full understanding of both the government-wide and fund financial statements.

Other information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. Other supplementary information includes detail by fund for receivables, payables, transfers, and payments within the reporting entity.

Financial Analysis of the Authority as a Whole

The Authority's net assets at the end of the fiscal year were \$1,781,663. This is a \$108,460 increase over last year's net assets of \$1,673,203.

The following tables provide a summary of the Authority's financial activities and changes in net assets:

Summary of Net Assets

	<u>06/30/2005</u>	<u>06/30/2006</u>
Current and other assets	\$ 765,154	\$ 1,068,072
Capital assets	1,012,980	870,110
Total assets	<u>1,778,134</u>	<u>1,938,182</u>
Accounts payable	12,903	73,354
Accrued expenses	36,679	45,399
Capital leases payable	55,349	37,766
Total liabilities	<u>104,931</u>	<u>156,519</u>
Net assets:		
Invested in capital assets	957,631	832,344
Unrestricted	715,572	949,319
Total net assets	<u>\$ 1,673,203</u>	<u>\$ 1,781,663</u>

Summary of Changes in Net Assets

	<u>06/30/2005</u>	<u>06/30/2006</u>
Revenues:		
Program revenues		
Charges for services	\$ 320,000	\$ 330,000
Operating grants and contributions	16,783	7,243
Capital contributions		
General revenues		
Fire millage	1,577,705	1,689,757
Other	<u>19,733</u>	<u>31,994</u>
Total revenues	<u>1,934,221</u>	<u>2,058,994</u>
Expenses for fire protection	<u>1,970,878</u>	<u>1,950,534</u>
Increase in net assets	(36,657)	108,460
Beginning net assets	<u>1,709,860</u>	<u>1,673,203</u>
Ending net assets	<u><u>\$ 1,673,203</u></u>	<u><u>\$ 1,781,663</u></u>

Changes in Financial Status and Analysis of Authority's Fund

The increase of \$108,460 in the Authority's net assets is primarily due to the slightly increased amount received for property taxes, but expenditures are relatively equal to the prior fiscal period.

Under fund accounting the Authority's overall General Fund fund balance increased by \$106,673 while still being able to transfer \$153,611 into the Capital Reserve Equipment Fund. The amount reported on the Statement of Net Assets differs from the fund statements primarily due to the \$172,007 of depreciation booked on that statement.

Budgetary Highlights

The budget originally adopted resembles the final amended budget with some small adjustments on the revenue side for property taxes and to account for increased interest earned on cash and equivalents. The expenditures budget was amended during the fiscal year to bring the budget closer to economic reality and account for the vehicle purchased.

Capital Asset and Debt Administration

The Authority purchased a utility vehicle for \$29,137 while incurring no additional debt. The Authority still has 2 years left on the capital leases for the 3 vehicles purchased. A total of \$37,776 principal remains on the capital leases.

Economic Conditions and Future Activities

Future operations will be funded primarily by property taxes collected. However, the Authority has dedicated 0.1 mills of these collections to be set aside for future capital improvements. For the year ended June 30, 2006 a total of \$153,611 was collected for these improvements, and \$29,137 was transferred back to purchase a new utility vehicle. The amount collected for these capital improvements is expected to increase slightly every year due to increases in the tax base.

Contacting the Authority's Financial Management

This report is designed to provide a general overview of the Authority's financial position and comply with finance-related regulations. If you have any further questions about this report or request additional information please contact the Howell Area Fire Authority at 1211 W. Grand River, Howell, MI 48843.

BASIC
FINANCIAL
STATEMENTS

GOVERNMENT - WIDE
FINANCIAL STATEMENTS

HOWELL AREA FIRE AUTHORITY
STATEMENT OF NET ASSETS
JUNE 30, 2006

	Primary Government	Component Unit -
	Governmental Activities	Hazardous Materials Fund
<u>ASSETS</u>		
Cash and cash equivalents	\$ 915,033	\$ 47,903
Accounts receivable	90,000	
Prepaid expenses	63,039	
Capital assets - net of depreciation	870,110	
	<hr/>	<hr/>
Total assets	1,938,182	47,903
	<hr/>	<hr/>
<u>LIABILITIES</u>		
Accounts payable	73,354	
Accrued wages	12,527	
Accrued vacation and sick	32,872	
Capital leases payable		
Current portion	18,436	
Non-current portion	19,330	
	<hr/>	<hr/>
Total liabilities	156,519	
	<hr/>	<hr/>
<u>NET ASSETS</u>		
Invested in capital assets, net of related debt	832,344	
Unrestricted	949,319	47,903
	<hr/>	<hr/>
Total net assets	\$ 1,781,663	\$ 47,903
	<hr/>	<hr/>

The notes are an integral part of the financial statements.

HOWELL AREA FIRE AUTHORITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>
Governmental activities:			
Fire protection	\$ (1,947,849)	\$ 330,000	\$ 7,243
Interest on long-term debt	<u>(2,685)</u>	<u> </u>	<u> </u>
Total	<u>\$ (1,950,534)</u>	<u>\$ 330,000</u>	<u>7,243</u>
Component Unit - Hazardous Materials Fund	<u>(19,588)</u>	<u> </u>	<u>28,000</u>
General revenues:			
Property taxes			
Unrestricted investment earnings			
Other income			
Total general revenues			
Change in net assets			
Net assets, July 1, 2005			
Net assets, June 30, 2006			

The notes are an integral part of the financial statements.

Net (Expenses) Revenue and
Changes in Net Assets

<u>Governmental Activities</u>	<u>Component Unit Hazardous Materials Fund</u>
\$ (1,610,606)	\$
<u>(2,685)</u>	<u></u>
<u>(1,613,291)</u>	<u></u>
<u></u>	<u>8,412</u>
1,689,757	
27,375	96
<u>4,619</u>	<u></u>
<u>1,721,751</u>	<u>96</u>
108,460	8,508
<u>1,673,203</u>	<u>39,395</u>
<u>\$ 1,781,663</u>	<u>\$ 47,903</u>

FUND
FINANCIAL
STATEMENTS

HOWELL AREA FIRE AUTHORITY
BALANCE SHEET
GOVERNMENTAL FUNDS AND COMPONENT UNIT
JUNE 30, 2006

	<u>Major Funds</u>		
	<u>General</u>	<u>Capital Reserve Equipment Fund</u>	<u>Total</u>
<u>ASSETS</u>			
ASSETS			
Cash and cash equivalents	\$ 779,254	\$ 135,779	\$ 915,033
Accounts receivable	90,000		90,000
Due from other funds		129,785	129,785
Prepaid expenditures	<u>63,039</u>	<u></u>	<u>63,039</u>
Total assets	<u>\$ 932,293</u>	<u>\$ 265,564</u>	<u>\$ 1,197,857</u>
<u>LIABILITIES AND FUND BALANCE</u>			
LIABILITIES			
Accounts payable	\$ 73,354	\$	\$ 73,354
Accrued wages	10,524		10,524
Accrued vacation and sick	32,872		32,872
Accrued pension and withholding	2,003		2,003
Due to other funds	<u>129,785</u>	<u></u>	<u>129,785</u>
Total liabilities	<u>248,538</u>	<u></u>	<u>248,538</u>
FUND BALANCES			
Unreserved	674,580		674,580
Designated	<u>9,175</u>	<u>265,564</u>	<u>274,739</u>
Total fund balances	<u>683,755</u>	<u>265,564</u>	<u>949,319</u>
Total liabilities and fund balances	<u>\$ 932,293</u>	<u>\$ 265,564</u>	<u>\$ 1,197,857</u>

The notes are an integral part of the financial statements.

Component Unit

Hazardous
Materials
Fund

\$ 47,903

\$ 47,903

\$

47,903

47,903

\$ 47,903

HOWELL AREA FIRE AUTHORITY
RECONCILIATION OF STATEMENT OF NET ASSETS
OF GOVERNMENTAL FUNDS TO THE BALANCE SHEET
JUNE 30, 2006

Amounts reported for governmental activities in the Statement
of Net Assets are different because:

Total fund balance per balance sheet	\$ 949,319
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.	
Historical cost	\$ 2,739,815
Depreciation	<u>(1,869,705)</u>
Capital assets net of depreciation	870,110
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. These include:	
Capital leases payable	<u>(37,766)</u>
Net assets of governmental activities	<u>\$ 1,781,663</u>

The notes are an integral part of the financial statements.

HOWELL AREA FIRE AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS AND COMPONENT UNIT
FOR THE YEAR ENDED JUNE 30, 2006

	Major Funds		
	General	Capital Reserve Equipment Fund	Total
REVENUES			
Fire millage	\$ 1,689,757	\$	\$ 1,689,757
Donations	6,173		6,173
Charges for services	330,000		330,000
Grant - federal	1,070		1,070
Interest	24,775	2,600	27,375
Miscellaneous	<u>4,619</u>		<u>4,619</u>
Total revenues	<u>2,056,394</u>	<u>2,600</u>	<u>2,058,994</u>
EXPENDITURES			
Personnel	1,339,188		1,339,188
Capital outlay	40,848		40,848
Other fire protection expenditures	<u>445,211</u>		<u>445,211</u>
Total expenditures	<u>1,825,247</u>		<u>1,825,247</u>
Excess of revenues over (under) expenditures	<u>231,147</u>	<u>2,600</u>	<u>233,747</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	29,137	153,611	182,748
Transfers (out)	<u>(153,611)</u>	<u>(29,137)</u>	<u>(182,748)</u>
Total other financing sources (uses)	<u>(124,474)</u>	<u>124,474</u>	
Net changes in fund balance	106,673	127,074	233,747
FUND BALANCE, JULY 1, 2005	<u>577,082</u>	<u>138,490</u>	<u>715,572</u>
FUND BALANCE, JUNE 30, 2006	<u>\$ 683,755</u>	<u>\$ 265,564</u>	<u>\$ 949,319</u>

The notes are an integral part of the financial statements.

Component Unit

Hazardous
Materials
Fund

\$

28,000

96

28,096

19,588

19,588

8,508

8,508

39,395

\$ 47,903

HOWELL AREA FIRE AUTHORITY
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

Amounts reported for governmental activities in the Statement of Activities are different because:

Net change in fund balances - governmental funds	\$ 233,747
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Governmental funds report capital outlay as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their useful lives as depreciation expense. The amount by which capital outlays exceeded depreciation is as follows:

Capital outlay	\$ 29,137
Depreciation expense	<u>(172,007)</u>
Total	(142,870)

Repayment of capital lease debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets
Repayment of:

Capital leases payable	<u>17,583</u>
Change in net assets of governmental activities	<u><u>\$ 108,460</u></u>

The notes are an integral part of the financial statements.

NOTES
TO
FINANCIAL
STATEMENTS

HOWELL AREA FIRE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The Howell Area Fire Authority was organized under Public Act No. 57, of the Public Acts of 1988, as amended in December of 2001. The Authority approved a fiscal year-end date of June 30. The purpose of the Authority is to provide fire protection and other emergency health and safety services. The governing board of the Authority is made up of six board members. Five of those board members come from the following incorporating municipalities:

- City of Howell
- Cohoctah Township
- Marion Township
- Oceola Township
- Howell Township

The sixth board member comes from Genoa Township which is not an incorporating municipality. A portion of Genoa Township is served by the Howell Area Fire Authority (Genoa Township is an incorporating municipality of the Brighton Area Fire Authority which contracts with the Howell Area Fire Authority). Each board member is selected by its respective municipality board of trustees.

The six board members appoint its own officers as well as select one additional non-voting member for the position of assistant treasurer and assistant secretary.

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 39 "The Financial Reporting Entity", these financial statements present all activities of the Authority. The Hazardous Materials Fund is a component unit of the Authority. Area fire departments contribute to this fund and the Haz-Mat Board is comprised of individuals appointed by Livingston County.

B. BASIC FINANCIAL STATEMENTS

In accordance with GASB Statement No. 34 - *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, the basic financial statements include both government-wide and fund financial statements.

The government-wide financial statements (Statement of net Assets and Statement of Activities) report on the Authority as a whole. All activities are reported in the government-wide financial statements using the economic resources measurement focus and the accrual basis of accounting, which includes long-term assets and receivables as well as long-term debt and obligations. The government-wide financial statements focus more on the sustainability of the Authority as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

HOWELL AREA FIRE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The government-wide Statement of Net Assets reports all financial and capital resources of the Authority. It is displayed in a format of assets less liabilities equals net assets, with the assets and liabilities shown in order of their relative liquidity.

The government-wide Statement of Activities demonstrates the degree to which both direct and indirect expenses of the various functions and programs of the Authority are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or identifiable activity. Indirect expenses for administrative overhead are allocated among the functions and activities using a full cost allocation approach and are presented separately to enhance comparability of direct expenses between governments that allocate direct expenses and those that do not. Program revenues include: 1) charges to customers or users who purchase, use or directly benefit from goods, services or privileges provided by a particular function or program and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes, unrestricted investment income and other revenues not identifiable with particular functions or programs are included as general revenues. The general revenues support the net costs of the functions and programs not covered by program revenues.

Also, part of the basic financial statements are fund financial statements for the governmental funds. The focus of the fund financial statements is on major funds, as defined by GASB Statement No. 34. Although this reporting model sets forth minimum criteria for determination of major funds (a percentage of assets, liabilities, revenues, or expenditures of fund category and of the governmental funds combined), it also gives governments the option of displaying other funds as major funds. Other non-major funds are combined in a single column on the fund financial statements.

The Authority reports the following major governmental funds:

The General Fund is the Authority's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Capital Reserve Equipment Fund accounts for the activity associated with the acquisition of capital assets. This fund is supported by the General Fund transfers.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The governmental fund financial statements are prepared on a current financial resources measurement focus and modified accrual basis of accounting. To conform to the modified accrual basis of accounting, certain modifications must be made to the accrual method. These modifications are outlined below:

1. Revenue is recorded when it becomes both measurable and available (received within 60 days after year-end). Revenue considered susceptible to accrual includes: property taxes, sales and use taxes, transient occupancy taxes, licenses, fees and permits, intergovernmental revenues (including motor vehicle license fees), charges for services, fines, forfeits and penalties, and interest.

HOWELL AREA FIRE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2. Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year.
3. Disbursement for the purchase of capital assets providing future benefits are considered expenditures. Any bond proceeds are reported as another financing source.

With this measurement focus, operating statements present increases and decreases in net current assets and unreserved fund balance as a measure of available spendable resources.

This is the traditional basis of accounting for governmental funds and also is the manner in which these funds are normally budgeted. This presentation is deemed most appropriate to: 1) demonstrate legal and covenant compliance, 2) demonstrate the sources and uses of liquid resources, and 3) demonstrate how the Authority's actual revenues and expenditures conform to the annual budget. Since the governmental funds financial statements are presented on a different basis than the governmental activities column of the government-wide financial statements, a reconciliation is provided immediately following each fund statement. These reconciliations briefly explain the adjustments necessary to transform the fund financial statements into the governmental activities column of the government-wide financial statements.

D. CAPITAL ASSETS

Under GASB Statement No. 34, all capital assets are recorded and depreciated in the government-wide financial statements. No long-term capital assets or depreciation are shown in the governmental funds financial statements.

Capital assets are defined as assets with an initial, individual cost of more than \$5,000 and an estimated useful life greater than one year. Capital assets are recorded at cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

E. MANAGEMENT ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

HOWELL AREA FIRE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. BUDGETS

An annual operating budget on the modified accrual basis of accounting consistent with accounting principles generally accepted in the United States of America is formally adopted for the General and Capital Reserve Funds. The budget can be amended by approval from the Authority's Board and the member municipalities. The budget amounts shown in the financial statements are the final authorized amounts as revised during the year. All annual appropriations lapse at the fiscal year end.

G. RISK MANAGEMENT

The Authority is exposed to various risks of loss pertaining to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Authority has purchased commercial insurance for these claims. Settled claims related to the commercial insurance have not exceeded the amount of insurance coverage.

H. ACCRUED COMPENSATED ABSENCES

The Authority has recorded a liability for compensated absences of the fire department. The policies regarding compensated absences are outlined in the Authority's "Rules of Employment".

NOTE 2 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006 was as follows:

	<u>Balances</u> <u>7-01-05</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balances</u> <u>6-30-06</u>
Equipment	\$ 433,812	\$	\$	\$ 433,812
Leasehold improvements	7,278			7,278
Vehicles	<u>2,269,588</u>	<u>29,137</u>	<u></u>	<u>2,298,725</u>
	2,710,678	29,137		2,739,815
Accumulated depreciation	<u>(1,697,698)</u>	<u>(172,007)</u>	<u></u>	<u>(1,869,705)</u>
Governmental activities capital asset, net	<u>\$ 1,012,980</u>	<u>\$ (142,870)</u>	<u>\$</u>	<u>\$ 870,110</u>

Depreciation expense is being recorded solely for fire protection services. The Authority utilizes the straight line method to depreciate capital assets over their estimated useful lives. There is \$37,766 of capital lease long-term debt associated with these assets.

HOWELL AREA FIRE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 3 - CAPITAL LEASE PAYABLE

The Authority has entered into a capital lease with Ford Motor Credit Company to finance the purchase of three Ford Expedition vehicles. The lease calls for annual payments of \$20,268 with an interest rate of 4.85% included with each annual payment. The lease expires during the year ended June 30, 2008.

	<u>Balance at 7-1-05</u>	<u>Lease Proceeds</u>	<u>Principle Paid</u>	<u>Balance at 6-30-06</u>
Capital lease payable Ford Motor Credit	\$ 55,349	\$	\$ 17,583	\$ 37,766

The following is a schedule of principle and interest payments to service the capital lease obligations of the Authority:

	<u>Capital Lease Payable</u>	
	<u>Principle</u>	<u>Interest</u>
2006-2007	\$ 18,436	\$ 1,832
2007-2008	<u>19,330</u>	<u>938</u>
Total	<u>\$ 37,766</u>	<u>\$ 2,770</u>

NOTE 4 - LEASE AGREEMENTS - (BUILDINGS)

The Authority has lease agreements for buildings which house offices, equipment and vehicles. The following is a schedule of lease terms and lessors:

<u>LESSOR</u>	<u>LEASE TERMS - JULY 1, 2005 THROUGH JUNE 30, 2006</u>
1. City of Howell - Fire station and sub-station (2 buildings)	Lease charge is \$68,702
2. Marion Township - Fire Station	Lease charge is \$19,658
3. Cohoctah Township - Fire Station	Lease charge is \$12,000
4. Oceola Township - Fire Station	Lease charge is \$23,652
5. Genoa Township - Fire Station	Lease charge is \$17,176

These leases are renewed annually. The Authority does not expect a significant variance in annual commitments for the lease terms for the year ending June 30, 2007.

HOWELL AREA FIRE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 5 - DEFINED BENEFIT PLAN -
MICHIGAN MUNICIPAL EMPLOYEES RETIREMENT SYSTEM (MERS)

The Authority provides a defined benefit pension plan under MERS. MERS is an agent multiple-employer, state-wide, defined benefit public employee retirement plan created under Public Act 135 of 1945 and now operates under Public Act 220 of 1996. MERS was established by the State of Michigan for purposes of providing retirement, survivor and disability benefits on a voluntary basis to the State's local government employees. Under Public Act 220, MERS became an independent public non-profit corporation independent from State government. The effective date of independence was August 16, 1996, at which time MERS ceased to be a part of the State of Michigan, Department of Management and Budget.

As of June 30, 2006 the Authority had four covered employees and 82 total employees. Covered and total payrolls for the year then ended was \$192,814 and \$1,076,405 respectively. Currently there are no retirants receiving benefits from the plan. Total employer contributions made to the plan during the year ended was \$28,120. Total employee contributions were \$6,623

At December 31, 2005, the unfunded pension liability was \$117,751, determined as follows:

Actuarial Accrued Liability

Retirees and beneficiaries currently receiving benefits	\$ 0
Terminated employees not yet receiving benefits	0
Current employees - Accumulated employee contributions including allocated investment income	 27,358
Employer financed	<u>330,482</u>
Total actuarial accrued liability	357,840
Net assets available for benefits at actuarial value	<u>240,089</u>
Unfunded actuarial accrued liability	<u>\$ 117,751</u>

HOWELL AREA FIRE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 5 - DEFINED BENEFIT PLAN -
MICHIGAN MUNICIPAL EMPLOYEES RETIREMENT SYSTEM (MERS) (continued)

The combined change in the pension benefit resulting from benefit changes, if any, and revisions in actuarial assumptions is 0.053632.

Analysis of Funding Progress

<u>Valuation Date December 31</u>	<u>Net Assets Available for Benefits</u>	<u>Pension Benefit Obligation (PBO)</u>	<u>Percent Funded (1)/(2)</u>	<u>Unfunded (Overfunded) PBO (2)-(1)</u>	<u>Annual Covered Payroll</u>	<u>Unfunded PBO as a % of Covered Payroll</u>
2004	\$ 192,096	\$ 308,622	62%	\$ 116,526	\$ 187,775	62%
2005	240,089	357,840	67%	117,751	192,814	61%

NOTE 6 - EMPLOYEE RETIREMENT PLAN

The Authority participates in two ICMA Deferred Compensation plans (Sec. 457) for part-time and full-time employees. Under each plan the employee is allowed to contribute pre-tax dollars up to the Internal Revenue Service limit from his or her payroll.

The Authority has also adopted a defined contribution plan (Sec. 401a) with ICMA for the benefit of its part time employees. According to the plan agreement, the Authority contributes 2% of compensation the 1st year of employment, 3% of compensation the 2nd year of employment and 5% of compensation the 3rd and following years of employment.

Since the full time employees belong to MERS defined benefit program they are prohibited from also belonging to a defined contribution plan under 401a.

TOTAL CURRENT YEAR EMPLOYER CONTRIBUTIONS \$ 4.090

TOTAL CURRENT YEAR EMPLOYEE CONTRIBUTIONS \$ 46.160

These balances reflect contributions for the period from June 1, 2005 to June 30, 2006.

HOWELL AREA FIRE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 7 - DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the Authority to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers; acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The Authority deposits are in accordance with statutory authority. The Authority maintains an imprest petty cash balance of \$250.

The Governmental Accounting Standards Board Statement No. 3 risk disclosures for the Authority's deposits are as follows:

<u>Deposits</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>	<u>Component Unit</u>
Insured	\$ 200,000	\$ 200,000	\$
Uninsured and uncollateralized	<u>714,783</u>	<u>715,033</u>	<u>47,903</u>
	<u><u>\$ 914,783</u></u>	<u><u>\$ 915,033</u></u>	<u><u>\$ 47,903</u></u>

NOTE 8 - DESIGNATED FUND BALANCE

As of June 30, 2006 the Authority's fund balance was designated for the following purposes:

• Capital reserve	\$ 265,564
• Fire Safety House	5,740
• K-9	1,685
• AED's	<u>1,750</u>
Total	<u><u>\$ 274,739</u></u>

The designated balance is a net result of outside donations and expenditures for the above purposes, except for the capital reserve. The capital reserved balance represents a portion of the property taxes to be designated for future capital purchases.

REQUIRED
SUPPLEMENTARY
INFORMATION

HOWELL AREA FIRE AUTHORITY
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2006

	Budget		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES				
Fire millage	\$ 1,593,989	\$ 1,682,719	\$ 1,689,757	\$ 7,038
Donations		3,620	6,173	2,553
Interest	2,500	17,500	24,775	7,275
Grant			1,070	1,070
Charges for services	330,000	330,000	330,000	
Miscellaneous			4,619	4,619
Total revenues	1,926,489	2,033,839	2,056,394	22,555
EXPENDITURES	<u>1,766,519</u>	<u>1,847,853</u>	<u>1,825,247</u>	<u>22,606</u>
Excess of revenues over (under) expenditures	<u>159,970</u>	<u>185,986</u>	<u>231,147</u>	<u>45,161</u>
OTHER FINANCING SOURCES (USES)				
Transfers in		29,137	29,137	
Transfers (out)	<u>(159,399)</u>	<u>(152,974)</u>	<u>(153,611)</u>	<u>(637)</u>
Total other financing sources (uses)	<u>(159,399)</u>	<u>(123,837)</u>	<u>(124,474)</u>	<u>(637)</u>
Net changes in fund balance	571	62,149	106,673	44,524
FUND BALANCE, JULY 1, 2005	<u>577,082</u>	<u>577,082</u>	<u>577,082</u>	
FUND BALANCE, JUNE 30, 2006	<u>\$ 577,653</u>	<u>\$ 639,231</u>	<u>\$ 683,755</u>	<u>\$ 44,524</u>

HOWELL AREA FIRE AUTHORITY
CAPITAL RESERVE EQUIPMENT FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Budget</u>			Variance with Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Interest	\$	\$	\$ 2,600	\$ 2,600
EXPENDITURES				
Excess of revenues over (under) expenditures			<u>2,600</u>	<u>2,600</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	159,399	152,974	153,611	637
Transfers (out)		<u>(29,137)</u>	<u>(29,137)</u>	
Total other financing sources (uses)	<u>159,399</u>	<u>123,837</u>	<u>124,474</u>	<u>637</u>
Net changes in fund balance	159,399	123,837	127,074	3,237
FUND BALANCE, JULY 1, 2005	<u>138,490</u>	<u>138,490</u>	<u>138,490</u>	
FUND BALANCE, JUNE 30, 2006	<u>\$ 297,889</u>	<u>\$ 262,327</u>	<u>\$ 265,564</u>	<u>\$ 3,237</u>

SUPPLEMENTARY
INFORMATION

HOWELL AREA FIRE AUTHORITY
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2006

	Amended Budget	Actual	Variance Favorable (Unfavorable)
REVENUES	<u>\$ 2,033,839</u>	<u>\$ 2,056,394</u>	<u>\$ 22,555</u>
EXPENDITURES			
Personnel	1,310,563	1,339,188	(28,625)
Professional fees	35,500	32,748	2,752
Insurance - liability	42,200	40,198	2,002
Supplies	42,000	37,107	4,893
Equipment and capital outlay	42,637	40,848	1,789
Communications	12,000	7,753	4,247
Uniforms	27,000	22,732	4,268
Training	26,000	19,247	6,753
Repairs and maintenance	43,000	33,783	9,217
Unallocated	46,265	49,254	(2,989)
City station #20	88,394	83,915	4,479
Marion street substation #21	18,758	18,728	30
Oceola fire station #22	40,902	36,161	4,741
Marion township station #23	28,958	24,678	4,280
Cohoctah township station #24	19,500	17,436	2,064
Genoa township station #34	<u>24,176</u>	<u>21,471</u>	<u>2,705</u>
Total expenditures	<u>1,847,853</u>	<u>1,825,247</u>	<u>22,606</u>
Net revenues over (under) expenditures	<u>185,986</u>	<u>231,147</u>	<u>45,161</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	29,137	29,137	
Transfers (out)	<u>(152,974)</u>	<u>(153,611)</u>	<u>(637)</u>
Total other financing sources (uses)	<u>(123,837)</u>	<u>(124,474)</u>	<u>(637)</u>
Net changes in fund balance	62,149	106,673	44,524
FUND BALANCE, JULY 1, 2005	<u>577,082</u>	<u>577,082</u>	
FUND BALANCE, JUNE 30, 2006	<u>\$ 639,231</u>	<u>\$ 683,755</u>	<u>\$ 44,524</u>

HOWELL AREA FIRE AUTHORITY
GENERAL FUND
STATEMENT OF REVENUES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES			
Fire Millage			
City of Howell	\$ 352,334	\$ 419,122	\$ 66,788
Howell Township	318,213	293,299	(24,914)
Marion Township	361,443	348,373	(13,070)
Oceola Township	386,760	377,972	(8,788)
Cohoctah Township	110,995	97,380	(13,615)
Reserved for capital replacement	152,974	153,611	637
Grant - Homeland Security		1,070	1,070
Genoa Township contract	330,000	330,000	
Interest income	17,500	24,775	7,275
Miscellaneous revenue		4,619	4,619
Donations	<u>3,620</u>	<u>6,173</u>	<u>2,553</u>
Total revenues	<u>\$ 2,033,839</u>	<u>\$ 2,056,394</u>	<u>\$ 22,555</u>

HOWELL AREA FIRE AUTHORITY
GENERAL FUND
STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Amended Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
PERSONNEL			
Salaries - fire personnel	\$	\$ 1,071,230	\$
Salaries - board		5,175	
Payroll taxes		81,006	
Health insurance		54,168	
Disability insurance		15,383	
Worker compensation insurance		80,016	
Pension		<u>32,210</u>	
Total personnel	<u>1,310,563</u>	<u>1,339,188</u>	<u>(28,625)</u>
PROFESSIONAL FEES			
Payroll administration		8,796	
Accounting services		4,700	
Auditor fees		9,850	
Computer support		6,396	
Attorney fees		<u>3,006</u>	
Total professional fees	<u>35,500</u>	<u>32,748</u>	<u>2,752</u>
INSURANCE			
General liability	<u>42,200</u>	<u>40,198</u>	<u>2,002</u>
SUPPLIES			
Office supplies		2,735	
Food and beverage		1,559	
Postage		1,488	
Operating supplies		<u>31,325</u>	
Total supplies	<u>42,000</u>	<u>37,107</u>	<u>4,893</u>
EQUIPMENT AND CAPITAL OUTLAY			
Small equipment		9,881	
Office furniture		870	
Capital outlay - trucks		29,137	
Computer equipment		<u>960</u>	
Total equipment and capital outlay	<u>42,637</u>	<u>40,848</u>	<u>1,789</u>

HOWELL AREA FIRE AUTHORITY
GENERAL FUND
STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL (continued)
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Amended Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
COMMUNICATIONS			
Cellular phones	<u>12,000</u>	<u>7,753</u>	<u>4,247</u>
UNIFORMS			
Clothing allowance		3,716	
Protective clothing		<u>19,016</u>	
Total uniforms	<u>27,000</u>	<u>22,732</u>	<u>4,268</u>
TRAINING			
Public teaching		14,152	
Community promotion		3,073	
Seminars and conferences		1,738	
Educational supplies		<u>284</u>	
Total training	<u>26,000</u>	<u>19,247</u>	<u>6,753</u>
REPAIRS AND MAINTENANCE			
Repairs and maintenance - equipment		6,268	
Repairs and maintenance - radios		1,124	
Repairs and maintenance - vehicles		<u>26,391</u>	
Total repairs and maintenance	<u>43,000</u>	<u>33,783</u>	<u>9,217</u>
UNALLOCATED			
Capital lease (principal and interest) - vehicles		20,268	
Mileage		5,566	
Physicals and examinations		1,039	
Miscellaneous		1,779	
Bank charges		101	
Dues and memberships		1,980	
Printing and publications		3,589	
Purchases from donations		8,601	
Hazardous material projects		4,344	
Tax chargebacks		<u>1,987</u>	
Total unallocated	<u>46,265</u>	<u>49,254</u>	<u>(2,989)</u>

HOWELL AREA FIRE AUTHORITY
GENERAL FUND
STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL (continued)
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Amended Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
CITY STATION #20			
Grounds maintenance		1,750	
Telephone		8,808	
Utilities		16,254	
Repairs and maintenance		1,559	
Lease - building		<u>55,544</u>	
Total city station #20	<u>88,394</u>	<u>83,915</u>	<u>4,479</u>
MARION STREET SUBSTATION #21			
Telephone		198	
Utilities		2,820	
Repairs and maintenance		2,552	
Lease - building		<u>13,158</u>	
Total Marion Street substation #21	<u>18,758</u>	<u>18,728</u>	<u>30</u>
OCEOLA FIRE STATION #22			
Grounds maintenance		1,030	
Telephone		108	
Utilities		11,290	
Repairs and maintenance		81	
Lease - buildings		<u>23,652</u>	
Total Oceola fire station #22	<u>40,902</u>	<u>36,161</u>	<u>4,741</u>
MARION TOWNSHIP STATION #23			
Telephone		102	
Utilities		4,141	
Repairs and maintenance		777	
Lease - building		<u>19,658</u>	
Total Marion Township station #23	<u>28,958</u>	<u>24,678</u>	<u>4,280</u>

HOWELL AREA FIRE AUTHORITY
GENERAL FUND
STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL (continued)
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Amended Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
COHOCTAH TOWNSHIP STATION #24			
Grounds maintenance		1,595	
Utilities		3,757	
Repairs and maintenance		84	
Lease - buildings		<u>12,000</u>	
Total Cohoctah Township station #24	<u>19,500</u>	<u>17,436</u>	<u>2,064</u>
GENOA TOWNSHIP STATION #34			
Telephone		928	
Utilities		3,367	
Lease - buildings		<u>17,176</u>	
Total Genoa Township station #34	<u>24,176</u>	<u>21,471</u>	<u>2,705</u>
Total expenditures	<u>\$ 1,847,853</u>	<u>\$ 1,825,247</u>	<u>\$ 22,606</u>

HOWELL AREA FIRE AUTHORITY

COMMENTS
AND
RECOMMENDATIONS

FOR THE YEAR ENDED JUNE 30, 2006

September 26, 2006

Board of Trustees
Howell Area Fire Authority
1211 W. Grand River
Howell, Michigan 48843

Honorable Board of Trustees:

In planning and performing our audit of the financial statements of the Howell Area Fire Authority for the year ended June 30, 2006, we considered the Authority's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. Those matters are as follows:

1. COMMENT

We noticed that a payment was made from a vendor statement. No detail on purchase was attached.

RECOMMENDATION

The Authority should only authorize payments from approved original invoices

2. COMMENT

The component unit of the Authority called Livingston County Hazardous Materials Response Team (HAZMAT) had opened its own bank account using the federal identification number of the City of Howell. The City of Howell previously included HAZMAT in its financial statement.

RECOMMENDATION

The new bank account used for the component unit should use the federal identification number of the Authority.

3. COMMENT

The Authority has adopted a defined contribution plan under Sec. 401a for part-time employees. The plan agreement we reviewed does not require employee contributions in order to receive an employer contribution. According to the plan agreement the Authority contributes on behalf of the employee 2% of compensation of the 1st year of employment, 3% for the 2nd year, and 5% for the 3rd and following years.

In discussions with administrative personnel the intent of the plan was for the Authority to make contributions in the amount of \$1 for \$1 of employee contributions up to the aforementioned percentages (lower of the two).

Actual contributions made by the Authority during the year were calculated by taking 2% of compensation for each part-time employee who withheld and contributed on his or her own. The amount contributed by the Authority did not take into effect the amount of the contribution made by the employee.

RECOMMENDATION

An amendment to the plan agreement needs to be made based on the true intent of the Authority Board.

This letter does not affect our report dated September 26, 2006 on the financial statements of the Howell Area Fire Authority.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and recommendations with various Authority personnel, and we will be pleased to discuss it in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended solely for the information and use of the Board of Trustees, and management of the Howell Area Fire Authority and is not intended to be and should not be used by anyone other than the specified parties.

Pfeffer, Hanniford & Palka, P.C.

PFEFFER, HANNIFORD & PALKA
Certified Public Accountants